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SUBJECT: GOS WILL LIKELY SELL COMPANY SHARES AS PART OF ITS NEEDED ECONOMIC REFORM

REF: A) DAKAR 1987, B) DAKAR 1693

DAKAR 00002091 001.2 OF 003

¶1. (SBU) SUMMARY: The Government of Senegal has announced plans to move forward on its much-touted privatization agenda and speed up its divestiture from three key public-private companies by early 2008: Sonatel (Telephone Company), ICS (Fertilizer Company) and Dakar Dem Dikk (public transportation). Organized labor has been vocal in its opposition to these plans, particularly as job-loss numbers -- potentially in the thousands -- circulate in the local press. If the government sells all its shares in these firms it could benefit from a USD 600-plus million windfall. Hopefully, that sum will be used to significantly help Senegal deal with its budget deficit, its current account deficit, or provide important support to anti-poverty efforts. The concern is that the administration will not assure the best value or application when cashing in these state assets. END SUMMARY.

DIVESTITURE GATHERS MOMENTUM

¶2. (U) After numerous delays, the Government of Senegal's privatization plan, part of its overall economic reform program, seems to be gaining momentum. The major elements of the agenda for the end of 2007 and the beginning of 2008 include the sale of its remaining stakes at Sonatel (telecommunications), ICS (phosphates and related products), and Dakar Dem Dikk, or 3D, (urban bus company), as noted in Ref A. Both ICS and 3D have serious financial difficulties.

¶3. (U) To date, Senegal's most important and strategic parastatals have been privatized. They include:

-- Suneor, the peanut processing and vegetable oil importing company, was privatized in 2005. Advens Group (a consortium that includes a Belgian firm and the Senegalese cotton company Sodefitex) now controls 66.9 percent of the shares, private individuals 10 percent, the employees 5 percent and GOS 5.1 percent. Advens changed the name from Sonacos to Suneor n 2006 as a first step towards boosting the image of the company;

-- the railroad operator Transrail was sold in 2003 to a Canadian Company, Canac-Getma for USD 34 million;

-- the national airline company, Air Senegal International, was privatized in 2000 with Royal Air Maroc now controlling 51 percent of the company's shares while GOS retains 49 percent;

-- the water supply company SDE was privatized in 1996 with SAUR (a subsidiary of the French Bouygues Group) controlling 51 percent,

private Senegalese individuals 39 percent, employees 5 percent, and the GOS 5 percent; and

-- Sonatel was partially privatized in 1997, but the GOS retained 39 percent of Sonatel's shares, while selling 33 percent to France telecom, 10 percent to the employees, and 18 percent to the public through the regional stock exchange. In 1999, a capital restructuring increased France Telecom's stake to 42 percent, reducing the GOS shares to 30 percent.

¶4. (U) Other privatizations which took place in the 1990's included SOTEXKA (textiles), SSPT (phosphates), Hamo (building construction), and Dakar Marine (Vessel construction). To date, the privatization programs have generated more than USD 400 million, largely from the 1997 sale of Sonatel shares (USD 212 million).

¶5. (U) With a push from the IMF, the World Bank, and other donors, the GOS is considering the privatization of Senelec, the country's heavily indebted electricity monopoly, and SAR, the country's heavily indebted petroleum refinery. The GOS might also sell the Meridien President Hotel, and perhaps even privatize the country's Postal service.

THE GOVERNMENT'S STAKE AND TAKE

¶6. (U) The sale of GOS's remaining stake (30 percent) in Sonatel should happen before the end of December. Sonatel has some shares listed on the regional bourse, and if all the shares (listed and not) were sold at the company's current share price the GOS could receive CFA 300 billion (USD 600 million), the equivalent of 20 percent of its original FY 2007 budget. According to local sources, since only a portion of the GOS's Sonatel shares are listed, the government plans to issue an international tender for most of its holdings. France Telecom/Orange Senegal (Sonatel's Strategic partner) is reportedly interested and ready to seize the offer to gain an absolute controlling share of the company. Should it acquire all the GOS shares, France Telecom would control 72 percent

of the company. Local employees hold 10 percent, and private and public representatives the final 18 percent.

¶7. (SBU) In fact, we have heard that GOS has already started "secret" negotiations with France Telecom, and that the deal may be finalized privately or France Telecom may be "pre-positioned" to win any public tender.

¶8. (U) The sale of the GOS's remaining stake in ICS, Senegal's largest industrial producer, is pending final resolution of an agreement signed between Senegal and the Indian company IFFCO, in which the latter will invest USD 160 million to reorganize and modernize ICS (Ref B). The agreement with IFFCO should reduce the GOS's stake in ICS from 46.38 percent to 10 percent. Thus, IFFCO and other local and foreign partners will establish a consortium that will control 90 percent of ICS's shares. Under this agreement, the GOS would not receive financial compensation for its 36.38 percent stake in ICS, though some observers have claimed that the GOS shares should be valued at around CFA 100 billion (USD 200 million). (Note: The GOS has been trying for almost two years to negotiate a deal to get ICS back to significant production and the value of GOS shares independent of such a negotiation is, in reality, negligible. End note). After a deal is finalized, the GOS could perhaps sell its remaining 10 percent stake in ICS for an additional small windfall.

¶9. (U) The agreement between IFFCO and the GOS is currently on hold since other creditors have balked at IFFCO's proposal that they write off 50 percent of their debt holdings from ICS. IFFCO also needs to reach agreement on the acquisition of shares from the company's minority investors. The GOS hopes these "little" issues are resolved by early 2008. [Note: ICS has arrears of over USD 180 million, in which USD 140 million is owed to local banks. ICS's other shareholders include the Government of India - 6.97 percent, Societe Commerciale Potasses et de l'Azote (SCPA) - 4.76 percent, the Government of Nigeria - 3.95 percent, the Government of Cameroon - 3.35 percent, the Islamic Development Bank (IDB) - 3.34

percent, and others - 7.92 percent. End note.]

¶10. (U) The privatization of the public bus company 3D is planned for early 2008. The GOS controls 70 percent of the company, Senecartours (another local transportation company) 15 percent, Snart (an insurance company) 10 percent, and 3D employees 5 percent. The value of the GOS holding is estimated at CFA 2 billion (USD 6 million).

ORGANIZED LABOR RESISTING

¶11. (U) Several reports in the local press have claimed that unions from these companies oppose the GOS's divestiture plan. Sonatel's union claimed it was "betrayed by the government" and faulted the latter for having broken the "social consensus" by failing to undertake extensive consultations before announcing its plans to sell its stake in the company. During a press conference held on September 13, Gabou Gueye, the head of Sonatel's union, stated, "except in the U.S. and Great Britain, public authorities worldwide always maintain a presence in the telecommunications sector." Gueye noted that "telecommunications represent a sector of sovereignty and pride for Senegal; therefore we will develop an awareness campaign among the other unions to discourage the GOS." Regarding France Telecom's likely absolute control of the Sonatel, Gueye stated, "we cannot accept that and will do everything we can to discourage the authorities."

¶12. (U) At ICS, union members have publicly faulted the GOS for not having undertaken sustainable measures to solve the financial mess. They have criticized the recapitalization plan, stating that it does not offer a bright future for workers. The agreement with IFFCO could lead to job losses of more than 750 full-time and 3,300 part-time/temporary workers, although the new private manager might reemploy half that number once the firm increases its output to historic levels.

¶13. (U) At 3D, more than 1,000 workers would reportedly lose their jobs. UDT-3D, the firm's main union, criticized the privatization plan and also blamed management for "embezzling money" and for not having taken measures to solve the financial crisis of the company.

COMMENT: WHAT WILL HAPPEN WITH THIS WINDFALL?
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¶14. (SBU) Despite unavoidable social pressures, the government appears intent on moving forward with its privatization agenda. Hopefully, this is an indication of a renewed commitment to much-needed economic reforms. While union leaders will continue to

criticize these changes, their agitation can be seen as a necessary exercise which is unlikely to lead to mass action or change the mind of the Wade Administration. With the expected combined proceeds from these sell-offs to reach at least USD 600 million, the government could be much better financed to follow through on its rhetoric to address the country's pressing poverty alleviation and development needs. This assumes that the proceeds go into the regular budget process and not to the opaque coffers of the Presidency or to one of the country's quasi-public, politically-constituted agencies. Another concern, as with every aspect of this government's public finances, is that the privatization exercise will not be transparent and will largely benefit the administration's favored partners through privately negotiated deals. These risks could be significantly reduced should the GOS conclude its proposed Policy Support Instrument with the IMF in the coming months.

SMITH